



March 8, 2010

Mary F. Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Inland Valley Federal Credit Union Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

Inland Valley Federal Credit Union has approximately \$40 million in assets and 4,400 members. We are not a large financial institution, yet we have been able to provide our members with cost effective financial services for more than 60 years. One of the contributing factors to our ability to provide these cost effective services over the years has been our membership in Western Corporate Federal Credit Union (Wescorp). Wescorp is our link to the Federal Reserve. We use Wescorp for electronic payment processing, share draft processing, check collection, settlement, imaging of deposited checks as well as member share drafts, cash management, liquidity management including overnight and short term loans, investments, market information and analysis, training and periodic Asset Liability Management testing and analysis. Wescorp has provided us with these services at superior prices because of their cooperative nature as a credit union. In the current system, the beneficiaries of a corporate's economies of scale and expertise are the natural person credit union member-owners, not a faceless group of investors in a for-profit alternative. For this reason, I am a firm believer that there is a place for corporate credit unions in the future of the credit union system.

I agree that the NCUA has the responsibility to protect the National Credit Union Share Insurance Fund (NCUSIF) and therefore must create rules which allow a corporate to conduct business without placing unacceptable risk to the NCUSIF and ultimately natural person credit unions. I also agree that these rules must reasonably guard against practices, such as those employed in the past, which violate prudent risk tolerances. I believe the proposed rule represents a tremendous amount of effort, but there are some areas that I would like to see reviewed and revised so that corporates have a legitimate chance to create and apply a sustainable business model. Areas of concern include:

Legacy Assets. One area not addressed is the treatment of legacy assets. Therefore, before any final rule is enacted, I ask that the NCUA reveal its intention regarding these assets. Ideally, corporate credit unions will be given a chance to operate from a clean slate and thus have the ability to provide the services to natural person credit unions as was once intended.

704.3 Corporate Credit Union Capital. *I ask that the time period be extended to at least 3 and preferably 5 years to attain the minimum capital requirements. Additionally, a corporate should have the power to finance the capital or issue a capital note (up to a certain percentage or amount).* Obtaining the required capital will most likely require corporate credit unions to ask its members for perpetual contributed capital. It is not wise to assume that natural person credit unions will soon be comfortable recapitalizing the corporate system, especially with uncertainty regarding legacy assets and future insurance guarantees. Achieving the necessary retained earnings in this short period is unrealistic in good economic times; in the current depressed economy it is unfathomable.

704.8 (c) Penalty for early withdrawals on corporate certificates. *I ask that this section be removed.* Other than Wescorp certificates, IVFCU invests solely in government insured financial institution certificates. Wescorp certificates provide liquidity options as we can use them as collateral for borrowing or we may redeem them early with a market price derived penalty or premium. Both of these are better options than redeeming our other financial institution certificates which typically contain a 3 to 6 month interest penalty regardless of underlying certificate market value. With this section intact, we potentially will be forced to seek other, more costly (or lower yielding), avenues of liquidity.

704.8 (d), (e) & (f) NEV sensitivity analyses. *I ask that any shocks limits be set to historical averages plus 2 or 3 standard deviations which will encompass 95.4% to 99.6% of the probable outcomes respectively. The NEV tolerance should be expanded to at least 50% in this test.* The credit shock tests as proposed are done with parameters that are significantly greater than the historical averages. With this limitation, I believe it will be impossible for a corporate to construct a balance sheet that will generate sufficient interest margin to build retained earnings to meet the proposed capital requirements. Without modification, I fear corporate will be required to significantly raise fees. This would be passed on to all credit union members (not just ones who contract with a corporate) as their competition (for-profit alternative service providers) would then have no incentive to provide lower cost services to credit unions.

704.8 (h) Weighted average asset life. *I ask that this section be revised to either increase to allowable asset duration to 5 years, exempt member loans from the calculation, or change the measurement to include liabilities and have a duration difference limit of 3 years.* Wescorp is our liquidity provider and with this proposed limitation, I fear that loan pricing would be increased because longer term assets would have to be discouraged through pricing for corporate to meet this asset requirement. Thus our costs could increase significantly (with Wescorp or an alternative).

704.6 (c), (d) & (f) Concentration limits & Credit risk management. *I ask that the definition of deposits in 704.6 (d) to include Federal Funds, or include Federal Funds transactions in the exemption from sector concentration limits. Also, please change 704.6 (c) to allow a larger single obligor limit of 200% of capital on money market transactions with a term of 90-days or less. An alternative solution might be to specifically allow a single obligor limit of 200% of capital for Federal Funds transactions sold to other depository institutions. Derivatives should be excluded from the ratings and concentration limits.* We use Wescorp for our daily cash management and short term funding needs. Reducing a corporate's ability to earn a short term return will force us to seek other avenues with less return and perhaps reduced functionality.

Section III.D. (starting page 99) Retained Earnings Growth model. *I ask that you revise the assumptions to build a proposed real-world model which adjusts for capital costs, share mix, prudent concentration parameters and realistic net spreads. Hiring a third party evaluator or creating a committee which includes credit union and corporate credit union executives would be an ideal first step in this process.* The model presented sets all funding costs including capital at LIBOR. Considering Capital at a corporate is an at-risk asset, it is unlikely that credit unions will not demand a premium return on this investment. The Share and Equity mix in the model, currently set at 30/70, should be adjusted to the historical mix and spreads. The high concentration of student loans appears to be another “too many eggs in one basket” scenario. Additionally, the inflated spread on just the private student loans accounts for an extraordinary share of the income.

Qualifications of Directors, Director Term Limits, Director Compensation and Disclosure of Director and Executive Compensation. *I ask that a Director’s qualifications not be determined by title, but rather by experience and education. Nine year term limits should be allowed. Directors should be compensated and only the true senior executives should have their compensation disclosed.* Securing a top flight management team and Board of Directors will be imperative to building a successful corporate credit union. Parity with other industries is an essential first step to accomplishing this objective.

704.11 Corporate Credit Union CUSOs. *NCUA should clarify definitions or additional information regarding permissible CUSO activities and the grandfathering of current but unlisted CUSO activities. Also, NCUA should utilize the concept of “materiality” to determine the extent of NCUA’s access to CUSO books, records, and facilities. NCUA’s reach should be restricted to CUSO activities that represent material risk.*

704.8(k) Overall limit on business generated from individual credit unions. *The following should be permissible: borrowings with a maturity of 30 days or less from either the Federal Reserve Bank, a Federal Home Loan Bank, a Repurchase Agreement counterpart or a Federal Funds counterpart, in excess of 10% of the corporate credit union’s moving daily average net assets. Alternatively, since the objective is to limit risk associated with a single credit union, this issue could be most simply addressed by eliminating the “or other entity” language of the proposed limitation.*

These sections represent my major concerns with the proposed rule. In summary, it seems the balance between risk avoidance and prudent risk management has been tilted too far. I believe that unless changed, these areas will negatively impact the ability of a corporate credit union to create and apply a sustainable business model. Without a corporate credit union system to provide processing, settlement, liquidity and investment services, credit unions will be forced to either develop their own in-house solutions or contract with alternate third parties. As stated above, it is probable that either choice will be more costly, if only because of reduced competition, decreased economies of scale, and/or the influence of a for-profit structured system vs. the cooperative structure of a system with an available corporate credit union.

I have provided many areas where I believe modifications to the proposal are warranted. Given the number of ideas and recommendations already submitted from my colleagues, as well as what is at stake – the possible viability or non-viability of a credit union-owned corporate system – I urge the NCUA to withdraw the proposal as drafted so that a more cohesive and feasible set of rules can be crafted. I strongly believe that there should be another round of proposed rule-

making for Part 704, with another 90 day comment period, before the final rule to govern corporate credit unions is issued.

In closing, I thank the NCUA Board for the opportunity to provide my concerns and recommendations regarding this very important rulemaking. The NCUA has a difficult task in crafting an equitable balance between preventing a repeat of past corporate problems and allowing a viable corporate system to thrive with proper risk management. However, I believe with some hard work, it can be accomplished.

Sincerely,

Charles J Papenfus
C.E.O.
Inland Valley F.C.U.